CANADA MORTGAGE AND HOUSING CORPORATION

HOUSING MARKET OUTLOOK

Toronto

Date Released: Fall 2006

New Home Market

Lower Housing Starts

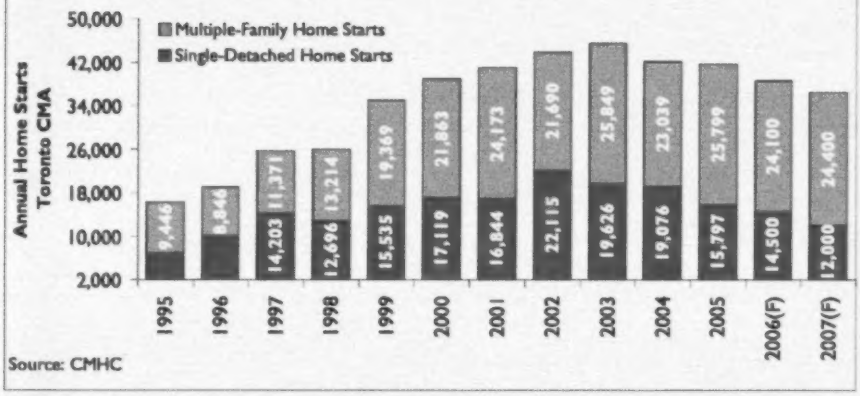
The housing market in the Toronto Census Metropolitan Area (CMA) is at the mature stage of the market cycle. The downward trend for new home construction will continue through 2007. With a forecast total of 36,400 new home starts will move closer to the long-term average of approximately 30,000 observed between 1980 and 2006. Ground-oriented home construction, particularly in relation to single and semi-detached houses, will continue to be the primary driver of reduced building activity. The number of condominium apartment units breaking ground will remain in line with the record and near-record levels experienced over the past two years.

Less Spill-Over from Resale Market

The tight seller's market conditions experienced for existing homes over the past decade have moderated.

Figure 1

Fewer Housing Starts in 2007



Source: CMHC

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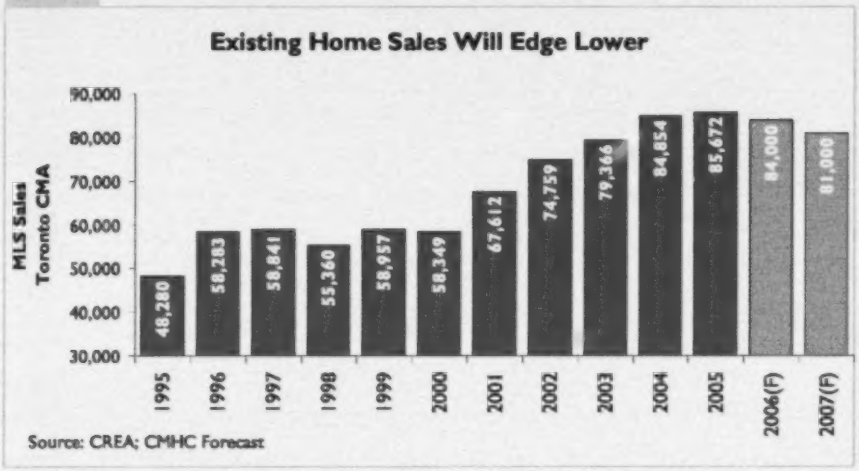
Figure 2



With more choice, a larger share of home buyers will meet their housing needs through the purchase of a resale home. Consequently, fewer buyers will start their home search in the new home market. The impact of less spill-over demand has largely been felt in relation to new low-rise home sales, which declined by 12 per cent through August compared to the first eight months of 2005. High-rise sales have been running slightly higher than last year, with an increase of almost two per cent. Fewer total new home sales this year will translate into lower housing starts next year and beyond, as the lag time between sale and start of construction often extends beyond one year's time.

High Cost of Construction

Rising construction costs have resulted in high new home prices. As the demand for new homes has remained above average over the past ten years, builders have been faced with escalating prices for land, labour and materials. In order to remain profitable, builders have had to pass on increased costs to home buyers in the form of higher advertised prices at sales centres.

While most households would like to purchase a single-detached home, high home prices have prompted many buyers to purchase a less-expensive semi-detached house, town home or condominium apartment. Multiple-family home types, including condominium apartments, will continue to account for approximately two-thirds of new home construction in 2007 – a much higher share than what was experienced earlier in the current new home construction cycle.

Spotlight on Condominium Apartments

The condominium apartment is the most popular type of multiple-family home being constructed in the Toronto area. The great majority of condominium apartment construction will be focussed in the City of Toronto next year and into 2008, with over 70 per cent of pre-construction high rise sales in 2005 and 2006 occurring in this area. The Former City of Toronto on its own will account for at least half of total condominium apartment starts in the metropolitan area. Outside of the City of Toronto, the established high-density node of Mississauga City Centre and certain areas in York Region will continue to experience substantial levels of condominium apartment construction.

Figure 3

The Investment Scene

Increased sales and construction of condominium apartment units has raised questions regarding the level of investor ownership and, by extension, price speculation that exists in the market.

The share of existing condominium apartments that are tenant as opposed to owner-occupied is a good indicator of investor activity. CMHC's 2005 Condominium Survey for the Greater Toronto Area indicates that the share of rental units, at slightly less than 19 per cent, is currently at very low levels. In contrast, in 1995 over 30 per cent of the condominium stock was investor held.

Speculative activity in the condominium apartment market is low relative to the peak of the last housing market cycle in the late 1980s and early 1990s. Between 1995 and 2003, many rental condominium apartments were sold as investors took advantage of capital gains resulting from robust annual price growth. A combination of slower price and rent appreciation and competition from other asset classes, including equities, has kept investor activity flat over the last three years.

Resale Market

Resales Edging Lower

Sales under the Multiple Listing Service (MLS) will amount to 81,000 in 2007 – down 3.6 per cent from 2006. Total sales will remain near record levels, but it is important to note that the sales cycle has matured. Over the next few years, MLS sales will dip below 80,000 and move closer to the longer term average. More moderate employment growth and increased home ownership costs are the key factors influencing maturing demand for existing homes.

Fewer First-Time Buyers

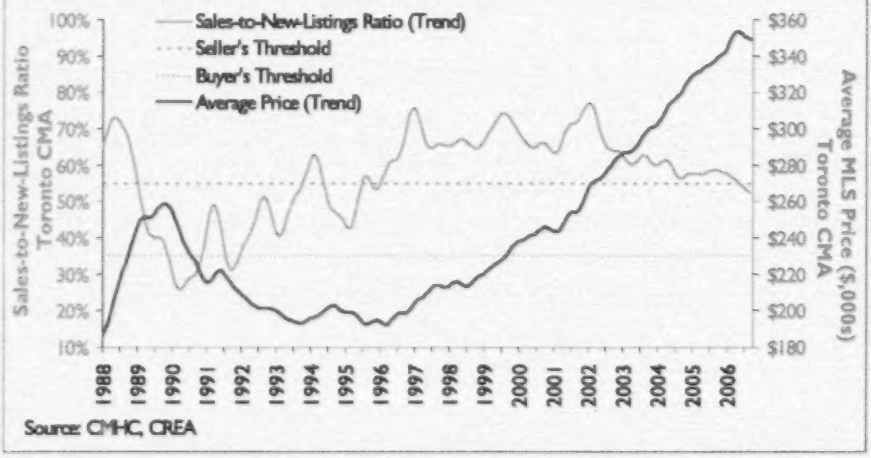
Pent-up demand for ownership housing, which developed during the period of below average economic growth in the early to mid-1990s, has largely been satisfied. First-time buyers accounted for a large proportion of this pent-up demand. High home prices and increased borrowing costs have pushed the average owner's monthly payment (i.e. principal and interest) higher. Some households, especially those considering their first home purchase, will put their decision to purchase on hold.

The impact of rising ownership costs on first-time buyers is evident through the results of CMHC's annual *Consumer Intentions to Buy or Renovate Survey*. In 2002, three-quarters of households intending to purchase a home were living in rental accommodation, with the majority likely being first-time buyers. Since the beginning of the new millennium, the situation has changed. Only 50 per cent of households intending to purchase a home in 2006 were living in rental housing.

Fewer first-time buyer intentions indicate that a smaller share of new households forming in the Toronto CMA will live, at least initially, in ownership housing. The spread between the average owner's monthly principal and interest payment and the average monthly rent has increased substantially over the past two years. Going forward, more households will choose to rent before making the move to home ownership.

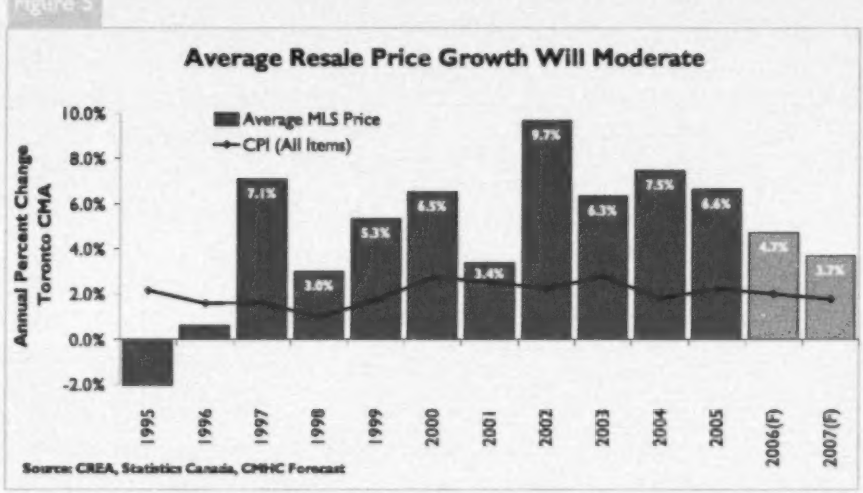
Figure 4

Resale Market Becoming Balanced



Source: CMHC, CREA

Figure 5



More Supply, Lower Price Growth

While MLS sales have reached a plateau and will decline over the next year, the number of new listings will continue to grow in 2007. Home owners will list their homes in greater numbers in order to take occupancy of completed new homes or to trade up on the strength of strong equity gains experienced since the late 1990s. More listings relative to sales will result in more choice for buyers.

The sales-to-new-listings ratio measures the balance between demand and supply. Generally speaking, a ratio of above 55 to 60 per cent for a sustained period of time points to seller's market conditions. A seller's market is characterized by price growth well above the rate of inflation, with multiple bids on homes becoming more common. A ratio below 55 per cent is consistent with more balanced market conditions. From 2003 onward, growth in listings has outstripped sales. The sales-to-new listings ratio has edged below 55 per cent, indicating more balanced market conditions. The downward trend will continue in 2007. Annual price growth will start to moderate and move closer to inflation. The average MLS price will increase 3.7 per cent to $365,000 next year. This growth rate will be down from 4.7 per cent in 2006.

Economic Trends

Employment Growth Steady

The economy will continue to grow in the Toronto area in 2007. Following two per cent annual growth in 2006, employment is forecast to grow by 1.8 per cent in 2007. While this rate of growth is substantially lower than what was experienced from the mid-1990s through 2001, it is important to note that the labour market in the Toronto area is very tight. The unemployment rate is low from a historic standpoint, which means that the majority of people who want to work currently have a job. Tight labour market conditions are generally associated with a rate of employment growth in line with the rate of population growth. Over the past decade, Toronto's population has grown by approximately two per cent annually. This growth rate is expected to moderate slightly over the next year.

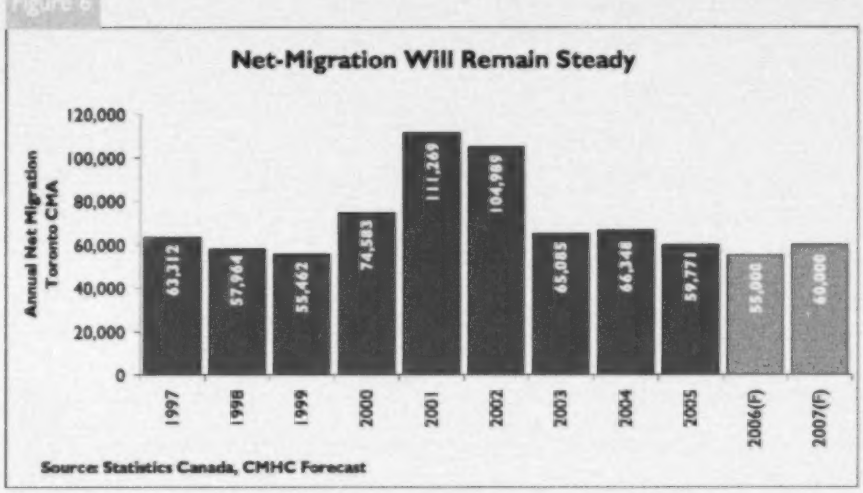
Strong domestic demand for goods and services will continue to fuel employment gains in services, finance, insurance and real estate and trade. The outlook for the goods producing side of the local economy is not as strong. Slowing residential construction will keep employment in this sector flat. Export-driven manufacturing will also continue to feel the effects of the high Canadian dollar.

In-Migration Will Continue

Steady job growth across a number of different sectors will continue to attract in-migrants into the Toronto area, but at slightly lower levels. In 2005, population was lost to western Canadian provinces and to other centres surrounding the metropolitan area. However, these losses were offset by a larger inflow of immigrants, who were not only attracted by Toronto's diversity of employment opportunities, but also strong ethnic and cultural networks as well.

In 2006, an increased number of households have moved to western provinces and immigration has been lower. As a result, net migration will edge lower and range between 50,000 and 55,000. In 2007, a combination of

Figure 6



higher immigration and lower outflows to other parts of Canada will result net migration ranging between 55,000 and 60,000 persons (see Figure 6).

Mortgage Rates Peaked

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2007.

Mortgage rates rose by 1.0-1.5 percentage point between September 2005 and September 2006. Mortgage rates are expected to remain low, easing by 25-75 basis points over the next two-three quarters before starting to climb higher. One, three and five-year posted mortgage rates are forecast to be in the 5.50-6.50, 5.75-6.75, and 6.00-7.00 per cent ranges respectively over the rest of this year and in 2007.

TORONTO CENSUS METROPOLITAN AREA
FOURTH QUARTER 2006 FORECAST SUMMARY

	2004	2005	2006(F)	2007(F)	% Change
New Home Sales					
Low-Rise	27,319	24,518	22,500	19,000	-15.6%
High-Rise	13,488	17,669	18,000	17,000	-5.6%
Total	40,807	42,187	40,500	36,000	-11.1%
New Home Starts					
Single-Detached	19,076	15,797	14,500	12,000	-17.2%
Multiple-Family	23,039	25,799	24,100	24,400	1.2%
Total	42,115	41,596	38,600	36,400	-5.7%
Resale Market					
MLS Sales	84,854	85,672	84,000	81,000	-3.6%
MLS New Listings	145,023	151,352	156,000	162,000	3.8%
MLS Price	$315,266	$336,176	$352,000	$365,000	3.7%
MLS Sales-to-New Listings Ratio	58.5%	56.6%	53.8%	50.0%	-
Rental Market					
Average Vacancy Rate	4.3%	3.7%	3.5%	3.0%	-
Average Rent (2-Bdrm. Apt.)	$1,052	$1,052	$1,068	$1,090	2.1%
Economic Overview					
Mortgage Rate (1-Year)	4.59%	5.06%	6.27%	5.50%-6.50%	-
Mortgage Rate (3-Year)	5.65%	5.59%	6.45%	5.75%-6.75%	-
Mortgage Rate (5-Year)	6.23%	5.99%	6.67%	6.00%-7.00%	-
Employment ('000s)	2,707.3	2,763.4	2,820.0	2,870.0	1.8%
Net Migration	66,348	59,771	50,000 - 55,000	55,000 - 60,000	-

Sources

New Home Sales: RealNet Canada Inc. (www.realnet.ca); CMHC Forecast

New Home Starts: CMHC (Historic and Forecast)

Resale Market: Canadian Real Estate Association (CREA); CMHC Forecast

Rental Market: CMHC (Historic and Forecast)

Statistics Canada

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